

ARMSTRONG WORLD INDUSTRIES INC
Form 10-Q
October 27, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-2116

ARMSTRONG WORLD INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

23-0366390
(I.R.S. Employer
Identification No.)

2500 Columbia Avenue, Lancaster, Pennsylvania
(Address of principal executive offices)

17603
(Zip Code)

Registrant's telephone number, including area code (717) 397-0611

Indicate by check mark whether the registrant; (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter time period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of Armstrong World Industries, Inc.'s common stock outstanding as of October 21, 2014
54,888,401.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q and the documents incorporated by reference may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Those forward-looking statements are subject to various risks and uncertainties and include all statements that are not historical statements of fact and those regarding our intent, belief or expectations, including, but not limited to, our expectations concerning our residential and commercial markets and their effect on our operating results; our expectations regarding the payment of dividends, and our ability to increase revenues, earnings and EBITDA (as such terms are defined by documents incorporated by reference herein). Words such as anticipate, expect, intend, plan, target, project, predict, believe, may, will, would, could, should, seek, estimate and similar expressions identify such forward-looking statements. These statements are based on management's current expectations and beliefs and are subject to a number of factors that could lead to actual results materially different from those described in the forward-looking statements. Although we believe that the assumptions underlying the forward-looking statements are reasonable, we can give no assurance that our expectations will be attained. Factors that could have a material adverse effect on our financial condition, liquidity, results of operations or future prospects or which could cause actual results to differ materially from our expectations include, but are not limited to:

global economic conditions;

construction activity;

availability and costs of raw materials and energy;

our liquidity;

covenants in our debt agreements;

our indebtedness;

competition;

key customers;

labor;

plant construction projects;

our WAVE joint venture;

environmental matters;

availability of deferred tax assets;

strategic transactions;

negative tax consequences;

international operations;

our intellectual property rights;

outsourcing;

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costs savings and productivity initiatives;

claims and litigation;

concentration of share ownership and voting control;

anti-takeover provisions; and

other risks detailed from time to time in our filings with the Securities and Exchange Commission (the "SEC"), press releases and other communications, including those set forth herein, and under "Risk Factors" included in our Annual Report on Form 10-K and in the documents incorporated by reference.

Such forward-looking statements speak only as of the date they are made. We expressly disclaim any obligation to release publicly any updates or revisions to any forward-looking statements to reflect any change in our expectations with regard thereto or change in events, conditions or circumstances on which any statement is based.

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Armstrong World Industries, Inc., and Subsidiaries

Condensed Consolidated Statements of Earnings and Comprehensive Income

(amounts in millions, except per share data)

Unaudited

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Net sales	\$ 728.3	\$ 729.7	\$ 2,072.7	\$ 2,058.6
Cost of goods sold	564.1	549.8	1,597.8	1,569.9
Gross profit	164.2	179.9	474.9	488.7
Selling, general and administrative expenses	114.0	103.0	346.0	326.9
Goodwill impairment			0.8	
Restructuring charges, net		(0.1)		(0.2)
Equity earnings from joint venture	(18.8)	(16.6)	(51.2)	(46.2)
Operating income	69.0	93.6	179.3	208.2
Interest expense	11.0	11.4	34.4	56.4
Other non-operating expense	0.6	0.2	7.0	0.9
Other non-operating income	(0.7)		(2.0)	(2.7)
Earnings from continuing operations before income taxes	58.1	82.0	139.9	153.6
Income tax expense	26.3	26.1	70.2	63.9
Earnings from continuing operations	31.8	55.9	69.7	89.7
Loss on sale of discontinued business, net of tax benefit of \$ -, (\$2.9) (\$1.2), and (\$3.4)	(0.2)	(5.5)	(2.3)	(6.4)
Net loss from discontinued operations	(0.2)	(5.5)	(2.3)	(6.4)
Net earnings	\$ 31.6	\$ 50.4	\$ 67.4	\$ 83.3
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(14.1)	6.2	(10.0)	(8.7)

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Derivative gain (loss)	4.9	(2.7)	(1.3)	13.8
Pension and postretirement adjustments	8.5	3.9	21.3	18.8
Total other comprehensive (loss) income	(0.7)	7.4	10.0	23.9
Total comprehensive income	\$ 30.9	\$ 57.8	\$ 77.4	\$ 107.2
Earnings per share of common stock, continuing operations:				
Basic	\$ 0.57	\$ 0.95	\$ 1.26	\$ 1.51
Diluted	\$ 0.57	\$ 0.94	\$ 1.25	\$ 1.50
Loss per share of common stock, discontinued operations:				
Basic		(\$ 0.09)	(\$ 0.04)	(\$ 0.11)
Diluted		(\$ 0.09)	(\$ 0.04)	(\$ 0.11)
Net earnings per share of common stock:				
Basic	\$ 0.57	\$ 0.86	\$ 1.22	\$ 1.40
Diluted	\$ 0.57	\$ 0.85	\$ 1.21	\$ 1.39
Average number of common shares outstanding:				
Basic	55.0	58.4	54.9	58.9
Diluted	55.5	59.0	55.4	59.5

See accompanying notes to Condensed Consolidated Financial Statements beginning on page 9.

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Armstrong World Industries, Inc., and Subsidiaries

Condensed Consolidated Balance Sheets

(amounts in millions, except share data)

	Unaudited September 30, 2014	December 31, 2013
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 148.4	\$ 135.2
Accounts and notes receivable, net	252.6	222.2
Inventories, net	415.9	381.7
Deferred income taxes	46.0	72.0
Income tax receivable	11.6	17.4
Other current assets	59.4	55.5
Total current assets	933.9	884.0
Property, plant, and equipment, less accumulated depreciation and amortization of \$721.5 and \$639.7, respectively	1,128.4	1,107.2
Prepaid pension costs	200.0	167.0
Investment in joint venture	132.2	132.0
Intangible assets, net	514.4	522.9
Deferred income taxes	23.3	30.1
Other non-current assets	73.9	73.4
Total assets	\$ 3,006.1	\$ 2,916.6
<u>Liabilities and Shareholders' Equity</u>		
Current liabilities:		
Current installments of long-term debt	\$ 36.5	\$ 23.9
Accounts payable and accrued expenses	399.5	383.6
Income tax payable	4.5	2.7
Deferred income taxes	0.7	0.7
Total current liabilities	441.2	410.9
Long-term debt, less current installments	1,013.6	1,042.6
Postretirement benefit liabilities	228.4	234.2
Pension benefit liabilities	207.7	225.5
Other long-term liabilities	58.5	67.5
Income taxes payable	45.8	81.7
Deferred income taxes	234.0	181.0
Total non-current liabilities	1,788.0	1,832.5
Shareholders' equity:		

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Common stock, \$0.01 par value per share, authorized 200 million shares; issued 59,944,849 shares, outstanding 54,887,467 shares in 2014 and 59,464,309 shares issued, 54,406,927 outstanding shares in 2013	0.6	0.6
Capital in excess of par value	1,124.7	1,098.4
Retained earnings	274.6	207.2
Treasury stock, at cost, 5,057,382 shares	(261.4)	(261.4)
Accumulated other comprehensive loss	(361.6)	(371.6)
Total shareholders equity	776.9	673.2
Total liabilities and shareholders equity	\$ 3,006.1	\$ 2,916.6

See accompanying notes to Condensed Consolidated Financial Statements beginning on page 9.

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Armstrong World Industries, Inc., and Subsidiaries

Condensed Consolidated Statements of Shareholders Equity

(amounts in millions, except share data)

Unaudited

	Nine Months Ended September 30, 2014							
	Common Stock				Treasury Stock		Accumulated Other Comprehensive	
	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Shares	Amount	Loss	Total
Balance at beginning of period	54,406,927	\$ 0.6	\$ 1,098.4	\$ 207.2	5,057,382	(\$ 261.4)	(\$ 371.6)	\$ 673.2
Stock issuance	480,540							
Share-based employee compensation			26.3					26.3
Net earnings				67.4				67.4
Other comprehensive income							10.0	10.0
Balance at end of period	54,887,467	\$ 0.6	\$ 1,124.7	\$ 274.6	5,057,382	(\$ 261.4)	(\$ 361.6)	\$ 776.9

	Nine Months Ended September 30, 2013							
	Common Stock				Treasury Stock		Accumulated Other Comprehensive	
	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Shares	Amount	Loss	Total
Balance at beginning of period	58,934,050	\$ 0.6	\$ 1,076.8	\$ 113.1			(\$ 471.4)	\$ 719.1
Stock issuance	274,587							
Repurchase of common stock	(5,057,382)				5,057,382	(\$ 261.4)		(261.4)
Share-based employee compensation			14.7					